



BellSouth Telecommunications, Inc.
Suite 4871
878 West Peachtree Street, N.E.
Atlanta, Georgia 30379

404 522-7022
Fax 404 521-2211

Mark L. Feldley
President - Interconnection Services

September 12, 1997

William J. Carroll
Vice President
AT&T Communications, Inc.
Room 4170
1200 Peachtree Street
Atlanta, Georgia 30309

Re: Your August 29, 1997, letter to Duane Ackerman

Dear Jim:

As committed on September 5, 1997, I am responding to the issues discussed in your August 29, 1997 letter to Duane Ackerman. Let me begin by saying BellSouth is not delaying AT&T's entry into the local market. BellSouth has expended hundreds of millions of dollars on, and has dedicated hundreds of employees to, the sole task of assisting new local service providers such as AT&T in entering the local market. The task, as you admitted in your August 1, 1997 letter, is not without tremendous challenges. Other local providers are entering the local market, investing in their own facilities, and are competing with BellSouth and winning local customers. These local providers are using the systems in which BellSouth has been investing hundreds of millions of dollars and are finding that they allow for real competition. Local competition is here and will continue to grow whether AT&T enters the market now or some time in the future.

Addressing your assertion that there is an "increasing tendency to push downward within BellSouth employee ranks, responsibility for critical issues," given the number and complexity of the implementation issues involved, both companies need to empower employees with expertise and knowledge in many disciplines at many levels to move forward and resolve implementation issues. Our role as members of upper management is to provide policy direction and support to those empowered by us. As an officer of BellSouth, I am involved with determining the policies of BellSouth as well as guiding the essential individuals in my department in the resolution of major issues concerning the implementation of AT&T interconnection agreements as well as the implementation of other agreements BellSouth has executed. BellSouth will continue to devote the time and energy of many highly capable people, and significant capital, to meeting AT&T's demands together with the needs and demands of the hundred plus other new local service providers that have contracted with BellSouth for interconnection services.

BellSouth has stated to AT&T at least three times in writing and numerous times verbally that BellSouth is committed to continuing operational testing of the combined unbundled loops and ports (UNE-P as you refer to it) in Florida and Kentucky and that it has committed the

appropriate personnel to support this process. To date, AT&T has, pursuant to Attachment 4, section 2.2 of the BellSouth /AT&T Interconnection Agreement, identified and described only four combinations, which were received by BellSouth in April of 1997. Rather than responding to BellSouth's written and verbal commitments by identifying any further combinations, or sending additional orders and testing of the systems, AT&T has only continued to "paper the record" with assertions that BellSouth is not committed to testing. BellSouth hereby once again reaffirms that it stands ready, willing and able to test the UNE ordering, provisioning and billing systems. It is only through such testing that the companies can determine and address where the problems, if any, lie. While BellSouth believes it is aware of AT&T's UNE testing requirements for Florida and Kentucky, if AT&T believes that a restatement of those testing requirements is required, then by all means communicate them to BellSouth again.

You further requested that BellSouth confirm certain positions regarding the 8th Circuit Court of Appeal's July 18, 1997 opinion as well as the recently announced FCC decisions regarding both Ameritech's 271 application and Shared Transport. Following are BellSouth's responses to your confirmation requests.

AT&T's confirmation request:

1. BellSouth will provide all combinations of unbundled network elements, including those that BellSouth asserts may replicate existing BellSouth services, at rates based on forward-looking economic costs:

2. BellSouth will not separate unbundled network elements requested by AT&T where such elements are currently combined in BellSouth's network. That is, where AT&T orders combinations of UNEs that in the ordinary course are already combined within BellSouth's network, such as the platforms being ordered in Florida, BellSouth will provide these elements as combined in BellSouth's network; and

3. BellSouth will impose no additional charges above the sum of the rates for all applicable UNEs contained in our interconnection agreements for UNEs that are already combined in BellSouth's network.

BellSouth's response:

The 8th Circuit plainly stated that the Act "unambiguously indicates that the requesting carriers will combine the unbundled network elements themselves." Therefore, there is no legal duty on the part of BellSouth to provide combined network elements to AT&T. BellSouth will provide to AT&T, at the rates established by the various state commissions, the individual network elements delineated in the AT&T/BellSouth Interconnection Agreement, and AT&T may combine the ordered elements in any fashion it chooses. Further, consistent with the 8th Circuit's ruling, if it is AT&T's plan to utilize all BellSouth network elements to provide finished telephone service, AT&T may purchase all of the individual unbundled network elements needed to provide finished telephone service, but AT&T must combine the necessary elements. The 8th Circuit ruling clearly finds, however, that BellSouth, as an ILEC, has no obligation to do so. The 8th Circuit expressly stated in upholding the FCC's rule that "[our] ruling finding that [the Act] does not require an incumbent LEC to combine the elements for a requesting carrier establishes that requesting carriers will in fact be receiving the elements on an unbundled basis." Thus, the only meaning that can now be given to FCC Rule 51.315(b) is that an

incumbent LEC may not further unbundle a network element to be purchased by another local provider unless explicitly requested to do so by that provider. The rule cannot be read as requiring ILEC's to deliver combinations to providers such as AT&T. BellSouth, however, is examining the viability of providing various combinations of UNEs as a service to its interconnection customers. Such service offerings would have prices that reflect the 8th Circuit's finding that the use of unbundled network elements involves greater risk to the other provider than does resale.

BellSouth nonetheless recognizes that the interconnection agreements that have been executed thus far obligate BellSouth to accept and provision UNE combination orders. Thus, until the 8th Circuit's opinion becomes "final and non-appealable," BellSouth will abide by the terms of those interconnection agreements as BellSouth expects AT&T will. Accordingly, assuming execution of the Alabama agreement, BellSouth will accept orders for and provision the four UNE combinations identified and described by AT&T pursuant to Attachment 4, section 2.2 of the Agreements. In all states except Kentucky (Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee), when AT&T orders a combination of network elements or orders individual network elements that, when combined, duplicate a retail service provided by BellSouth, BellSouth will treat, for purposes of billing and provisioning, that order as one for resale. In Kentucky, when AT&T orders a combination of network elements or orders individual network elements that when combined duplicate a retail service provided by BellSouth, BellSouth will treat the order for purposes of billing and provisioning, as one for unbundled network elements. In all states, when AT&T fulfills its obligation under Attachment 4, section 2.2 and identifies combinations of unbundled network elements that, when combined do not duplicate a retail service, BellSouth will accept and provision that order as one for unbundled network elements priced at the individual network element rates. In Alabama, where BellSouth and AT&T have not yet executed an interconnection agreement, BellSouth is willing, until the 8th Circuit's opinion becomes final, to execute an interconnection agreement that reflects the terms described above. That agreement would be subject to modification as discussed below. This interim accommodation is consistent with what BellSouth and AT&T have done in other states. I understand that such an interconnection agreement has been proposed and I will instruct Jerry Hendrix to execute that agreement after he has had a opportunity to fully review the agreement.

Immediately upon the 8th Circuit's opinion becoming final, BellSouth expects, pursuant to section 9.3 of the General Terms and Conditions of the Interconnection Agreement, that the interconnection agreements will be modified to remove all references to BellSouth's obligation to combine unbundled network elements for AT&T and to otherwise reflect the Court's decision. If following these modifications, AT&T believes that, rather than directly meeting its obligation under the Act to do the combining of any BellSouth UNEs, it would prefer to have BellSouth perform services related to combining and/or operating and maintaining combined elements, BellSouth, as stated above, would consider such a request and be prepared to enter into negotiations regarding appropriate terms and conditions.

4. Florida UNE Testing - Billing

Concerning the billing received by AT&T in the Florida testing, I offer the following corrections and clarifications. For the UNE-P orders involved with this test, the following elements may be billed in the CRIS billing system:

CRIS

Unbundled Local Switching - Line Port (ULS-LP) (NRC + Monthly recurring)
Unbundled Local Switching - Switching Functionality (ULS-SF) (per MOU)
Unbundled Local Switching - Trunk Port (ULS-TP) (per MOU)
Unbundled Tandem Switching - Switching Functionality (UTS-SF) (per MOU)
Unbundled Tandem Switching - Trunk Port (UTS-TP) (per MOU)
Unbundled Interoffice Transport - Shared (UIT-S) (per MOU and per MOU-mile)
Operator and DA elements (have not been implemented for this testing timeframe)

As of August 14, 1997, BellSouth has the capability to bill the MOU based switching and transport elements for all local direct dialed calls originating from ULS-LPs (or in this case UNE-Ps). In your list, you also included Unbundled Interoffice Transport - Dedicated (UIT-D), Unbundled Packet Switching (UPS), AIN, LDB, SS7 Signaling, 800 Database, Directory Access to DA Service, Directory Assistance Transport and Directory Assistance Database Service. These elements are not applicable for the scenarios that you have requested to be tested in Florida and Kentucky.

You also stated that AT&T has yet to receive the daily usage recordings that BellSouth agreed to transmit during the Florida test. As issues regarding daily usage recording were encountered, they were addressed by BellSouth and corrective actions were taken. Further testing was limited due to the lack of actual usage found on the four accounts. The Jan Burris/Pam Nelson team that meets regularly to discuss and resolve issues recently agreed that the testing team should formalize the usage recording testing. The team agreed to implement a logging system so that the users would record their various calls, time of day, type of call, duration, etc., and provide the log to BellSouth so that BellSouth could follow the call through its systems.

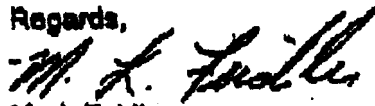
In connection with the UNE concept test, BellSouth is not currently sending AT&T access records associated with UNEs. Pursuant to the law at the time, BellSouth's position had been that BellSouth should continue to bill access to the IXC and that transmitting records was therefore not required. Subsequent rulings now appear to support the need for BellSouth, in instances where the use of unbundled network elements is not duplicating an existing BellSouth service, to send records in order for the local provider to bill the IXC interstate access. Given these changes, BellSouth concurs that BellSouth and AT&T need to come to an agreement of the formatting of these access records. In addition, BellSouth and AT&T need to work through industry fora to reach agreement on standards for record exchange and meet point billing.

BellSouth does not agree with your assessment of BellSouth's participation on Call Flow discussions. BellSouth met with your representatives in May of 1997, and participated on a conference call in June of 1997 in an attempt to reach agreement. However, due to key differences in the underlying positions of the companies, the representatives were not able to reach agreement except for those call flows for intraswitch local calls. BellSouth, as always, stands ready to meet with AT&T to further discuss call flows and it is my understanding that such a meeting has been scheduled.

I trust that this answers any question you may have had. BellSouth, as it has consistently done in the past, is prepared to discuss all issues that AT&T may raise. To the extent you have any

further questions or comments regarding BellSouth's policies or major issues regarding implementation of the AT&T/BellSouth interconnection agreement, please direct them to me.

Regards,


Mark Feldler

ATTACHMENT 8



William J. (Jim) Carroll
Vice President

Room 4170
1200 Peachtree St., NE
Atlanta, GA 30309
404 810-7262

August 1, 1997

Via Facsimile and U.S. Mail

Mr. Duane Ackerman
Vice Chairman of the Board and Chief Operating Officer
BellSouth Telecommunications, Inc.
1155 Peachtree St., Suite 2010, N.E.
Atlanta, GA 30309

Dear Duane:

This letter responds to Charlie Coe's July 10, 1997, letter (Attachment 1) responding to my June 13, 1997, letter (Attachment 2).

Normally, I would not provide you with the level of detail contained in this letter. However, I am contacting you because I believe the positions articulated by Mr. Coe are illustrative of positions BellSouth has taken that have contributed significantly to the delays AT&T has encountered in entering the local market. Indeed, AT&T's delays in entering the local market have not been driven by AT&T's purported desire to keep BellSouth out of the long distance market, as you so publicly assert, but instead result from BellSouth's own actions and inactions.

In his July 10th letter, Mr. Coe claims that AT&T has misunderstood BellSouth's position on testing of Unbundled Network Elements ("UNEs") in Florida. Mr. Coe's response does little to clarify the mixed messages AT&T has received from BellSouth on this issue. On one hand, Mr. Coe states BellSouth "will cooperate in testing UNEs with AT&T." On the other hand, he states that in all states but Kentucky, any UNE combination "that produces essentially the equivalent of an existing retail service... will be priced, provisioned, maintained and otherwise treated as a resold service...."

It is clear that BellSouth is now alleging that it failed to appreciate that AT&T intended that testing in Florida to be comprehensive, including testing of systems related to billing and usage and use of the UNE rates, despite the clear language in the Florida UNE testing agreement which AT&T and BellSouth executed.

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According to Mr. Coe, BellSouth is willing only to provide on the bill an indicator that UNEs were ordered as a UNE combination and not at UNE rates. If this is the case, the UNE testing in Florida will be UNE testing in name only because BellSouth calls it UNE testing and not because UNE testing actually is taking place. AT&T can only view BellSouth's position as a misguided step backwards from the Florida Commission's Order and our Florida UNE testing agreement to test not only "technical feasibility" of UNE combinations, but all operational interfaces and business procedures for providing service via UNE.

Additionally, contrary to Mr. Coe's assertions, on several occasions AT&T has provided BellSouth specific information on UNE combinations. As early as June and July, 1996, AT&T's Ray Crafton shared with BellSouth's Scott Schaefer the UNE combinations AT&T required and the timing for the availability of such combinations. Mr. Crafton reiterated this information earlier this year in discussions with BellSouth's Mark Feidler. Further, AT&T's Jim Hill provided information on the combinations to be tested in Florida to BellSouth's Jerry Hendrix in May, 1997. Given this history, BellSouth's feigned lack of information is nothing more than a lame excuse for inexcusable delay.

Moreover, contrary to BellSouth's claims, AT&T's position on the pricing of UNE's is fully consistent with and supported by the Florida Commission's decisions. As outlined in AT&T's Motion to Compel Compliance filed June 9, 1997, the Commission three times has rejected BellSouth's argument that a combination of UNE's that replicated a BellSouth service be priced as though it were a resold service. Indeed, BellSouth reliance on the Commission's purported "concern", as quoted in Mr. Coe's letter, subsequently was rejected by the Commission when the Commission refused to add any "concern" language to the Interconnection Agreement between AT&T and BellSouth.

Additionally, AT&T's position on this issue was most recently upheld by the United States Court of Appeals for the Eighth Circuit. In its July 18, 1997, opinion, the Court clearly rejected all of the LEC arguments that carriers should not be permitted to purchase at cost-based prices combinations of Network Elements that are similar or equivalent to LEC services available for resale.

Equally misguided are the "guidelines based on current state ruling and decisions" outlined in Mr. Coe's letter. Not only is BellSouth incorrect in its reading of the Commission's decision in Florida, but BellSouth attempts to limit the combinations AT&T can order in Kentucky. Neither the agreed upon language for our interconnection agreement, nor the Kentucky Order allows BellSouth to limit the availability of UNE combinations and require AT&T to utilize the bona fide request process for others as BellSouth asserts. Under our

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Kentucky Interconnection Agreement, based on language agreed to by our companies and approved by the Kentucky Commission, AT&T has the right to "purchase Unbundled Network Elements for the purpose of combining Network Elements... in any manner that it chooses to provide service." Again, the Eighth Circuit's July 18, 1997, decision affirmed this position. Any attempt by BellSouth to limit AT&T's ability in this regard clearly is improper.

Finally, I would like to believe that BellSouth values its relationship with AT&T and that BellSouth does not desire to delay AT&T's entry into local markets, as Mr. Coe's letter and your public pronouncements have claimed. However, "actions speak louder than words". To date, BellSouth has thwarted AT&T's market entry efforts whenever possible and has done little to treat AT&T as a valued customer. As indicated above, BellSouth's actions based upon a purported policy issue in Florida have set back AT&T's UNE testing in Florida several weeks. Likewise, when BellSouth provided an executed test agreement for UNE testing in Kentucky, it did so with the restriction that AT&T could only test UNE in Kentucky if the Florida UNE testing did not work out. These are but two examples of BellSouth's efforts to delay our market entry. In most, if not all, instances the delay greatly exceeds the bounds of "good faith difference in interpretations of the Telecommunications Act and various regulatory rulings" as Mr. Coe claims.

In light of the above, please confirm in writing that BellSouth will make combinations of UNEs, including those that replicate existing BellSouth services available, priced, provisioned, maintained and billed as UNEs. Anything less is contrary to the dictates of the Telecommunications Act and the Eighth Circuit's decision.

Sincerely,


William J. Carroll

cc: Charles B. Coe
Mark Feidler
Elton King



BellSouth Telecommunications, Inc.
Suite 4814
875 West Peachtree Street, N.E.
Atlanta, Georgia 30375

404 527-7332
Fax 404 524-1837

Charles B. Cox
Group President - Consumer Services

July 10, 1997

Mr. William J. Carroll
Vice President - AT&T
1200 Peachtree St., NE
Room 4170
Atlanta, GA 30309

Dear Jim,

This letter is in response to yours addressed to me dated June 13, 1997, concerning the pricing of Unbundled Network Elements. Your letter displays what appears to be a basic and substantial misunderstanding of Mark Feldler's letter of May 29, 1997.

First, BellSouth's May 29 letter does not reverse previous positions taken by BellSouth. Indeed, it does not even address testing of UNEs either in Florida or in Kentucky. BellSouth's position is and has been that it will cooperate in testing UNEs with AT&T. This includes testing in Florida and Kentucky. BellSouth has not refused to test UNEs with AT&T, and quite frankly I am not sure how you arrived at your mistaken conclusion that it had. It certainly cannot be based on any letter from BellSouth or your conversations with me. To the contrary, both Mark Feldler and Quinton Sanders spoke with Al Calabrese of AT&T within a few days of this question arising and assured him that we would continue UNE testing in Florida.

Second, while it is obvious that we disagree on the pricing of UNEs, BellSouth has not in any way denied that in Florida UNEs can be combined in any technically feasible manner. It should be readily apparent to anyone, however, that the technical feasibility of UNE combinations and their pricing are two completely different issues. With regard to the pricing of UNE combinations, the Florida Public Service Commission stated in PSC-97-0826-FDF-TP at pages 9 and 10 that it had set rates "only for the specific unbundled elements that the parties requested." The PSC went on to observe that it "would be very concerned if recombining network elements to recreate a service could be used to undercut the resale price of the service." Thus the FPSC does not seem to agree with AT&T regarding the pricing of recombined UNEs.

As information, BellSouth has adopted the following guidelines based upon the current state rulings and decisions. UNEs can be combined in any manner that is technically feasible. In every state but Kentucky, if two or more UNEs are combined by AT&T in a manner that produces essentially the equivalent of an existing retail service, then the combination will be priced, provisioned, maintained, and otherwise treated as a resale retail service with an indicator that this service was ordered as a UNE combination. In Kentucky, UNE combination orders, irrespective of whether such recombinaisons constitute the equivalent of an existing retail service, will be priced, provisioned, maintained, and otherwise treated as UNEs.

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I would note, in addition, that AT&T has not provided BellSouth with any specific information outlining the combinations of UNEs that AT&T expects to be ordering as a result of the Florida Arbitration Order. BellSouth is pursuing, initially in Kentucky, the product development of the following combinations of UNEs -- 2-wire analog loop with a 2-wire analog port (residence or business), 2-wire analog loop with a 2-wire analog PBX port, and a 2-wire analog loop with 2-wire analog PBX port with DID -- in an attempt to anticipate, and therefore, facilitate the availability of the combinations to AT&T. For UNE combinations other than these, BellSouth will either treat the combination as separate UNE orders or develop the capability to treat them as a new UNE combination product at the request of AT&T through the bona fide request process.

Also, let me address briefly your continued allegations concerning BellSouth's supposed delay of AT&T's entry into the local market. BellSouth has worked cooperatively with AT&T over many months in negotiating contracts with AT&T and in testing and implementing service. It is not the case that good faith differences in interpretations of the Telecommunications Act and various regulatory rulings between BellSouth and AT&T are indicative of any desire on BellSouth's part to delay AT&T's entry into local markets. The relationship between AT&T and BellSouth is a mature one which BellSouth values very much and BellSouth takes its responsibility for AT&T as its customer very seriously. I am disappointed that AT&T has misconstrued what seems to me to be differences of opinion and good faith efforts to negotiate mutually agreeable solutions as efforts to delay AT&T's business plans. That simply is not an accurate assessment of BellSouth's intentions or actions.

As we discussed yesterday, BellSouth Telecommunications ("BST") has recently announced an internal reorganization which is designed to better align BST's operations with the changed local telecommunications environment and to better meet the needs of CLEC customers like AT&T. As a result of this reorganization, I now will be focused on the retail business units of BST, and no longer have responsibility for the Inter-connection Services unit. Accordingly, I think future correspondence of this nature should be directed to Mark Feldler, and you should look to Mark for senior level attention to the resolution of these types of matters.

Sincerely,

Charlie



William J. (Jim) Carroll
Vice President

Room 4170
1200 Peachtree St., NE
Atlanta, GA 30309
404 810-7262

June 13, 1997

Charles B. Coe
Group President-Customer Operations
BellSouth Telecommunications, Inc.
Room 4514
675 W. Peachtree Street, NE
Atlanta, Georgia 30375

Dear Charlie:

I am writing to express my disappointment over recent BellSouth actions which have delayed AT&T's entry into the local market. This supplements our conversations in this regard.

By letter dated May 29, 1997 (Attachment A), BellSouth stated, among other things, that it was refusing to honor its obligation to provision and bill unbundled network elements ("UNE's") in Florida at the prices set by the Florida Commission for UNE's. Rather, BellSouth stated that it "intend[s] to treat requests for recombined UNEs which will substantially replicate existing retail services" as resold services.

The position taken by BellSouth in its May 29 letter constitutes a reversal from positions taken by BellSouth over months of meetings and negotiations regarding the provisioning and testing of unbundled network elements in Florida. When Ray Crafton and Al Calabrese of AT&T met with Mark Feidler of BellSouth and his staff on March 14, 1997, AT&T and BellSouth agreed that we would conduct testing in Florida to learn about the operational complexity we would face in ordering, provisioning and billing unbundled network elements. A significant reason for selecting Florida was that UNEs were available without restriction and therefore the parties could fully test all the interfaces, including the UNE billing interfaces. To this end, and because BellSouth had refused to sign the AT&T interconnection agreement in Florida, AT&T and BellSouth entered into a separate agreement for unbundled network element testing in Florida (Attachment B). That agreement specifically provides that such

testing is being conducted "to provide BellSouth and AT&T with on-line experience with the performance of the operational interfaces and business procedures developed by the parties." Under the agreement, BellSouth "will bill AT&T... at the rates set forth in the Florida Public Service Commission's Order...."

Moreover, BellSouth's UNE pricing position comes after the Florida Public Service Commission ruled in *three separate decisions* that AT&T can combine unbundled elements in any manner that is technically feasible, including recreating existing BellSouth services. Contrary to BellSouth's assertions, the only remaining UNE pricing issue open in Florida is whether the UNE prices ordered by the Florida Public Service Commission contain duplicate recurring and non-recurring charges when AT&T combines UNE's. The Florida Commission directed AT&T and BellSouth to negotiate resolution of this open issue—to date we have not reached agreement.

Although BellSouth's position was that it would not continue UNE testing in Florida because of BellSouth's UNE pricing policy position, you have assured me that BellSouth now will continue such testing. To that end, AT&T received BellSouth's letter dated June 9, 1997 from Quinton Sanders which states that, "we will continue testing in Florida for Unbundled Network Elements (UNE) ordering and billing." However, BellSouth's letter goes on to state that BellSouth's "position continues to be ...the pricing for recombined UNEs are the essential equivalent of BellSouth's retail services and we will treat requests for recombined UNEs in the same manner as requests for similar retail services." In light of this statement, once again I ask that you confirm that BellSouth will complete UNE testing in Florida that will include testing of the billing and usage data elements at the UNE rates set by the Florida Commission and not the resale rate.

It is important that we reach closure on the Florida UNE testing issue to avoid further delay. Contrary to your statement to me, BellSouth's actions in Florida have delayed AT&T/BellSouth UNE testing efforts by at least three weeks. The expected bill from BellSouth has been delayed from June 30, 1997, to at least July 20, which results in AT&T's development effort being delayed.

Furthermore, to protect against additional delay in AT&T's market entry plan, please take steps necessary to insure that BellSouth executes the attached agreement for UNE testing in Kentucky (Attachment C). AT&T

views this agreement as necessary protection to avoid any additional BellSouth policy reversals which could delay UNE testing completion in Florida. A copy of this agreement was forwarded to Mary Jo Peed earlier this week.

Finally, I wanted you to understand that AT&T takes exception to BellSouth's position on access, as articulated in the May 29 letter, when AT&T provides service through unbundled network elements. Clearly we disagree on this issue.

I look forward to hearing from you on the Florida and Kentucky issues as soon as possible.

Sincerely,

A handwritten signature in black ink, appearing to be 'Coe', written over a large, stylized loop.

cc: Mark L. Feidler
Mary Jo Peed



William J. (Jim) Carroll
Vice President

Room 4170
1200 Peachtree St., NE
Atlanta, GA 30309
404 810-7262

VIA COURIER

August 29, 1997

Mr. F. Duane Ackerman
President and Chief Executive Officer
BellSouth Corporation
1155 Peachtree Street, Suite 2010
Atlanta, Georgia 30309

Dear Duane:

This addresses BellSouth's August 22, 1997, letter regarding my August 1st letter to you concerning the availability of Unbundled Network Elements (UNEs) and UNE testing in Florida and Kentucky.

From the outset, I must express my extreme disappointment in BellSouth's response. Generally, it is short on implementation details and tall on rhetoric and platitudes. Specifically, the history of our discussions on UNE availability and testing has been characterized by BellSouth's unwillingness to perform the testing to AT&T's specifications and unnecessary delays in meeting with AT&T to work out the detailed deliverables. The delays that AT&T has encountered in testing UNEs constitutes an unreasonable and unacceptable barrier to AT&T's market entry activities, and cannot continue.

Rather than responding to the issues raised in our letter, BellSouth glibly notes that "BellSouth is currently reviewing the state commission decisions regarding access to unbundled network elements and the recombination of unbundled network elements to determine how BellSouth's current policies should change." AT&T requires answers, not more delay while you once again reconsider "policy issues." Additionally, we continue to be disappointed at BellSouth's increasing tendency to push downward within BellSouth employee ranks, responsibility for critical issues. Duane, we need you to give the availability and testing of UNEs your personal attention, given the lack of progress over a period of many months dealing with others at BellSouth. Please confirm that you will do so.

Regarding the UNE testing for both Florida and Kentucky, AT&T wants to be sure that you clearly understand AT&T's UNE requirements, so that AT&T can translate BellSouth's asserted willingness to test UNEs into direct deliverables.

To date, AT&T has received two bills for the UNE testing in Florida. These bills reveal that BellSouth has yet to separately identify and bill AT&T for all of the UNEs included in the

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platform combination. AT&T has been billed for four Port/Loop combination elements, along with applicable 911, directory listings, and franchise charges. In accordance with earlier discussions with the BellSouth billing subject matter experts ("SMEs"), the following elements also should be separately identified and billed on a monthly basis (at present, BellSouth provides billing for UNEs using two different existing billing systems - CRIS and CABS):

In the CRIS Bill

Interoffice Common Transport
Tandem Switching
Local Switching
Operator Call Processing
Directory Assistance Access Service
Directory Assistance Call Completion
Unbundled Loops
AIN
DA Number Services Intercept

In the CABS Bill

Directory Access to DA Service
SS7 Signaling
Directory Assistance Transport
Directory Assistance Database Service
Interoffice Transport Dedicated
Unbundled Packet Switching
800 Database
LIDB

Although prices for a few ordered elements in Florida have yet to be negotiated by AT&T and BellSouth, prices for all ordered UNEs have been established in Kentucky. In Florida, BellSouth should identify the elements on the bill for test purposes without setting forth a rate. In Kentucky, all UNEs and the appropriate rates should be displayed on the bill. AT&T is still uncertain when BellSouth expects it will be able to identify and bill all applicable UNEs in Florida and Kentucky. I ask that you provide me with the date when BellSouth will be able to identify and provide accurate billing for each of these UNEs in Florida and Kentucky.

Additionally, we have yet to receive the daily usage recordings that BellSouth agreed to transmit during the Florida test. AT&T needs BellSouth to confirm when it expects it will be able to transmit the recording information associated with these UNEs both in Florida and Kentucky. If BellSouth cannot transmit these usage recordings electronically, AT&T needs to know how BellSouth will make these usage recording categories available to AT&T. AT&T also requires specific information on the UNE concept test recording categories BellSouth will transmit to AT&T, i.e. appropriate local/IntraLATA/InterLATA originating and terminating records for all usage sensitive unbundled elements including originating local IntraLATA/InterLATA 8YY traffic in EMR format. You should know that AT&T has provided BellSouth its requirements on at least five separate occasions. However, BellSouth has not even been willing to discuss these requirements with AT&T. AT&T needs to know how BellSouth plans to meet these requirements now. I have attached a copy of additional details for your information.

Also, after several attempts to meet to discuss how calls will flow through BellSouth's network, and, based on these call flows, what BellSouth will bill AT&T, we have been

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unable to reach an agreement on the call flows that are critical to AT&T's market entry. We believe BellSouth's refusal to agree is because it believes AT&T cannot be the exchange access provider. But frankly, this has not been clearly stated. While BellSouth has indicated it has "somewhat modified" its position as it pertains to interstate access and local mutual compensation in Kentucky only, BellSouth has refused to discuss all of the call flows needed by AT&T. This is particularly perplexing to AT&T, given BellSouth's own data response filed in a Kentucky Public Service Commission case, which I have attached. AT&T reiterates its desire for a meeting with BellSouth to agree on all the call flows. For your information, I am attaching a description of the various call flows which need to be discussed.

As I mentioned earlier in this letter and in past correspondence, BellSouth's procrastination in addressing these issues has significantly delayed testing the use of UNEs in Florida and AT&T's market entry. I would remind you that testing in Florida began more than four (4) months ago; BellSouth's failure to respond to these issues has thwarted AT&T's efforts to move forward.

BellSouth's August 22, 1997, letter also ignores my August 1st request of BellSouth to confirm that BellSouth will make combinations of UNEs, including those that BellSouth asserts replicate existing BellSouth services, available, priced, provisioned, maintained and billed as UNEs in accordance with the 8th Circuit Court of Appeal's July 18, 1997, opinion. Given the 8th Circuit's decision, as well as the recently announced FCC decisions on the Ameritech § 271 application and Shared Transport, I request specific confirmation that:

1. BellSouth will provide all combinations of unbundled network elements, including those that BellSouth asserts may replicate existing BellSouth services, at rates based on forward-looking economic costs;
2. BellSouth will not separate unbundled network elements requested by AT&T where such elements are currently combined in BellSouth's network. That is, where AT&T orders combinations of UNEs that in the ordinary course are already combined within BellSouth's network, such as the platform being ordered in Florida, BellSouth will provide these elements as combined in BellSouth's network; and
3. BellSouth will impose no additional charges above the sum of the rates for all applicable UNEs contained in our interconnection agreements for UNEs that are already combined in BellSouth's network.

To the extent that you cannot confirm BellSouth's agreement with any of these items, I request that you state BellSouth's position in detail.

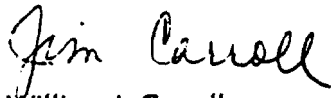
Duane, unfortunately, once again, I am compelled to bring the critical nature of these issues to your attention and to make sure you understand their adverse impact on AT&T's market entry plans. Again, AT&T needs to understand BellSouth's position on the availability of UNEs, both individually and in combination. AT&T also needs BellSouth to forward proper UNE billing and usage recording information immediately. Finally, AT&T needs your

Mr. F. Duane Ackerman
August 29, 1997
Page 4

personal commitment to resolve the open issues that will allow our UNE testing to move forward.

It is one thing to state that BellSouth "will cooperate in testing unbundled network elements with AT&T in Florida and Kentucky." It is another to commit the time, personnel, and other resources necessary to get the job done, again, including your personal attention. To date, BellSouth has promised the former, but its actions are just the opposite. The resulting delay is both obvious and intolerable. Please respond to each of the issues identified in this letter in writing by September 5, 1997.

Sincerely,


William J. Carroll

cc: Mark Feidler
Jerry Hendrix

Attachments

ATTACHMENT 9

Received 5/20/96 VIA MAIL

May 16, 1996

RECEIVED
VIA FAX

William J. Carroll
Room 4170
1200 Peachtree Street, N.E.
Atlanta, Georgia 30309

Dear Jim:

The purpose of this letter is to respond to your three letters to Duane Ackerman, of May 6, 1996 and your letter of May 7, 1996 addressed to me.

May 6, 1996 letters to Duane Ackerman regarding Alabama and Kentucky—BellSouth is pleased that AT&T has elected to begin interconnection, unbundling and resale negotiations for the states of Alabama and Kentucky. BellSouth will now consider these states as a part of the ongoing negotiations between our two companies and will recognize May 6, 1996 as the official date for both states. If this is not the case, please let me know.

Secondly, BellSouth suggests that the two companies go ahead and include the rest of the BellSouth states in the negotiations. If this proposal is acceptable to you, BellSouth will consider the official commencement date for negotiations to be the date of your written acceptance of this proposal.

May 6, 1996 letter to Duane Ackerman regarding operational interfaces and May 7, 1996 to me regarding same—BellSouth maintains that the PC to PC fax interface initially proposed meets the letter and spirit of the Telecommunications Act of 1996 as to interface requirements between the incumbent local exchange carrier and other local exchange carriers. Further, the fax interface is immediately available thus facilitating AT&T's immediate entry into the local exchange reseller market.

Nonetheless, BellSouth has been willing to go further than the requirements of the law through its consideration and offer to provide an electronic interface system for service order transfer and confirmation. It is our expectation that representatives from BellSouth and AT&T will soon be able to agree on the specific requirements for this system.

In addition to the above-mentioned EDI development, BellSouth has continued to explore options for addressing AT&T requests and has taken the following steps:

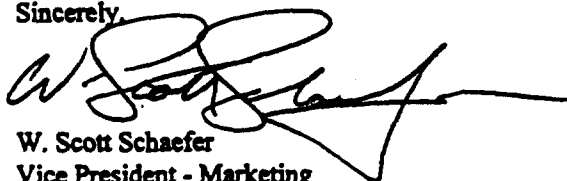
- (1) BellSouth has developed an initial view of pre-ordering electronic interfaces including electronic access to: RSAG - End office (CLLI) NPA-NXX information, PSIMS - Feature and function availability, ATLAS - Telephone number assignment, DSAP - Due date scheduling.
- (2) BellSouth has developed an initial view of the work necessary to complete service orders to AT&T via an EDI interface.
- (3) BellSouth will consider authorizing the design phase to begin on both the abovementioned items pending acceptance by AT&T of the terms outlined in the following paragraphs.

BellSouth has two mechanisms for recovering the costs of this additional and discretionary work. The costs of the development of the systems can be netted against the discount offered to resellers for the purchase of BellSouth's retail telecommunications services or the cost can be recovered through non-recurring charges.

At present, AT&T is the only reseller to request that the interface between BellSouth and itself be through electronic systems. Further, in your May 1, 1996 letter, you specifically rejected BellSouth's proposal to net the costs of the development of electronic interface from the discount offered to resellers by BellSouth. BellSouth was surprised by AT&T's reaction to the "netting" concept due to earlier informal indications from AT&T that this method would be worthy of serious consideration and because this approach would spread the costs across resellers utilizing the BellSouth network. As discussed in our meeting of May 14, BellSouth is requesting AT&T put forth a proposal for BellSouth's recovery of these costs that would be acceptable to both parties.

I look forward to our regularly scheduled meetings regarding the negotiations.

Sincerely,



W. Scott Schaefer
Vice President - Marketing
InterConnection Services

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